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Illustrations of accounting for innovative financing arrangements; Financial report survey, 25

Hortense Goodman

Leonard Lorensen

FINANCIAL REPORT SURVEY 25

Illustrations of Accounting for Innovative Financing Arrangements

By Hortense Goodman, CPA
and
Leonard Lorensen, CPA

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1 Illustrations of Accounting Policy Disclosure (1972)
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2 Illustrations of Reporting Accounting Changes (1974)
A survey of reporting under APB Opinion No. 20

3 Illustrations of Reporting the Results of Operations (1974)
A survey of applications of APB Opinion No. 30

4 Illustrations of Interperiod Tax Allocation (1974)
A survey of applications of APB Opinion Nos. 11, 23, 24, 25 and SEC Release No. 149

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A survey of reporting under APB Opinion No. 19

6 Illustrations of the Summary of Operations and Related Management Discussion and Analysis (1975)
A survey of the application of Rules 14a-3 and 14c-3 of the Securities Exchange Act of 1934 in annual reports to shareholders

7 Illustrations of Departures from the Auditor's Standard Report (1975)
A survey of the application of Statement on Auditing Standards No. 2

8 Illustrations of the Disclosure of Related Party Transactions (1975)

9 Illustrations of the Disclosure of Subsequent Events (1976)
A survey of the application of Section 560 of Statement on Auditing Standards No. 1

10 Illustrations of Accounting for Contingencies (1976)
A survey of the application of FASB Statements Nos. 5 & 11

11 Illustrations of the Disclosure of "Pro Forma" Calculations (1976)
A survey of the application of certain sections of APB Opinion Nos. 15, 16, and 20, and SAS No. 1

12 Illustrations of Accounting for Marketable Equity Securities (1977)
A survey of the application of FASB Statement No. 12

13 Illustrations of the Disclosure of Unaudited Financial Information in Audited Financial Statements (1977)

14 Illustrations of Accounting for Employee Benefits (1977)

15 Updated Illustrations of Accounting Policy Disclosure (1978)
A survey of applications of APB Opinion No. 22

16 Illustrations of Accounting for Leases (1978)
A survey of the application of FASB Statement No. 13

17 Illustrations of Accounting for Debt Under Four Pronouncements (1978)
A survey of the application of APB Opinion No. 26 and FASB Statement Nos. 4, 6, and 15

18 Illustrations of Auditor's Reports on Comparative Financial Statements (1979)
A survey of the application of SAS No. 15

19 Illustrations of Management Reports on Financial Statements (1979)
A survey of the application of the conclusions and recommendations of the AICPA Special Advisory Committee on Reports by Management

20 Illustrations of Selected Proxy Information (1979)
A survey of the application of SEC requirements to disclose auditors' services and management perquisites in proxy statements

21 Illustrations of Accounting for Joint Ventures (1980)
A survey of the application of various methods of accounting for joint ventures in the financial statements of venturers

22 Illustrations and Analysis of Disclosures of Pension Information (1981)
A survey of the application of the requirements of FASB Statement No. 36, an amendment of APB Opinion No. 8

23 Illustrations and Analysis of Disclosures of Inflation Accounting Information (1981)
A survey of the application of the requirements of FASB Statements Nos. 33, 39, 40, and 41

24 Illustrations of Foreign Currency Translation (1982)
A survey of the application of FASB Statement No. 52

Illustrations of Accounting for Innovative Financing Arrangements

NOTICE TO READERS

This is a publication of the staff of the American Institute of Certified Public Accountants and is not to be regarded as an official pronouncement of the Institute.

PREFACE

This publication is the twenty-fifth in a series produced by the Institute's staff through use of the Institute's National Automated Accounting Research System (NAARS). Earlier publications in the series are listed on the inside cover of this publication.

The purpose of the series is to provide interested readers with examples of the application of technical pronouncements. It is believed that those who are confronted with problems in the application of pronouncements can benefit from seeing how others apply them in practice.

It is the intention to publish periodically similar compilations of information of current interest dealing with aspects of financial reporting.

The examples presented were selected from over eight thousand annual reports stored in the NAARS computer data base.

This compilation presents only a limited number of examples and is not intended to encompass all aspects of the application of the pronouncements covered in this survey. Individuals with special application problems not illustrated in the survey may arrange for special computer searches of the NAARS data banks by contacting the Institute.

The views expressed are solely those of the staff.

George Dick
Director, Technical Information Division

TABLE OF CONTENTS

I

SCOPE AND PURPOSE OF THE SURVEY

TYPES OF FINANCING ARRANGEMENTS

Business enterprises have in recent years increasingly used six new types of financing arrangements:

- Compulsorily redeemable preferred stock
- Unconditional purchase obligations
- Debt-equity swaps
- Gold or silver indexed bonds
- Variable (floating) rate notes
- Zero coupon bonds or notes

Accounting for those types of financing arrangements by debtors requires considerable judgment. Accountants who are confronted with problems in accounting for them can benefit from learning how others have accounted for them in practice. Accordingly, this publication presents excerpts from recently published financial statements that illustrate the accounting on the part of debtors.

Certain aspects of accounting for compulsorily redeemable preferred stock and unconditional purchase obligations are prescribed in Statement of Financial Accounting Standards No. 47, "Disclosure of Long-Term Obligations," issued by the Financial Accounting Standards Board. Statement No. 47 is reproduced in the appendix to this survey.

SOURCE OF ILLUSTRATIONS

The AICPA National Automated Accounting Research System (NAARS) was used to compile the information. The 43 examples presented were selected from the more than 8,000 published annual reports to shareholders stored in the computer data base.

II

COMPULSORILY REDEEMABLE PREFERRED STOCK

Redeemable preferred stock is preferred stock that is redeemable by the issuing corporation at a price specified in the stock certificate. Preferred stock has been traditionally redeemable often at the choice of the issuing corporations, but in recent stock issues redemption is often compulsory for the issuer, either at the choice of the holder or at a date or during a period of time specified in the certificate. Sinking funds are commonly used for compulsory redemptions.

The only authoritative accounting pronouncement that discusses compulsorily redeemable preferred stock is FASB Statement No. 47. Paragraph 10 requires disclosure of the amount of redemption requirements for each of the five years following the date of the latest balance sheet presented.

The two principal problems of accounting for compulsorily redeemable preferred stock concern its classification in the balance sheet and the basis of its measurement. The companies in NAARS that were studied for this survey classified compulsorily redeemable preferred stock in four ways:

- As a liability
- As an element of stockholders' equity
- As a third type of item
- As an item that can be interpreted as a liability, an element of stockholders' equity, or a third type of item.

With one exception, all the companies that were studied stated compulsorily redeemable preferred stock at the redemption price or the redemption price less the unamortized difference between the redemption price and the fair value of the stock at the date of issuance. Some companies had to choose among different redemption prices in effect at different times. Amortization was accomplished by charging retained earnings over the period until expected redemption at amounts determined under the interest method or an unspecified method of amortization. All the companies studied charged dividends paid on compulsorily redeemable preferred stock to retained earnings.

Seventeen examples are presented below of accounting for compulsorily redeemable preferred stock. The examples are classified according to which type of balance sheet classification was used for the stock.

LIABILITY

OWENS-ILLINOIS, INC.
Balance Sheet

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Liabilities and Shareholders' Equity

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Redeemable preferred shares	6.9	10.6
Non-redeemable preference shares, common shares and other shareholders' equity:		
Preference shares (liquidation preference, $36.7 million in 1981 and $54.8 million in 1980)	7.3	11.0
Common shares	91.5	90.4
Capital in excess of stated value	137.2	113.7
Retained earnings	1,179.1	1,100.9
	1,415.1	1,316.0
Total liabilities and shareholders' equity	$3,072.2	$3,066.0

Financial Review

Capital Shares, Capital shares at December 31, 1981 and 1980, were as follows:

	Number of Shares	
	1981	1980
Preferred shares, $100 par value, 4% cumulative:		
Authorized	141,985	141,985
Issued and outstanding	69,078	106,325
Preference shares, without par value, cumulative, issuable in series:		
Authorized	2,000,000	2,000,000
$4.75 convertible series, $20 stated value, entitled to $100 in involuntary liquidation:		
Authorized	743,766	743,766
Issued and outstanding	366,826	548,317
Common shares, $3.125 par value:		
Authorized	45,000,000	45,000,000
Outstanding	29,286,491	28,950,798
In treasury	736,806	146,899

Changes in issued and outstanding shares in 1981, 1980, and 1979 resulted from the purchase and retirement of preferred shares, the exercise of stock options and stock appreciation rights, the issuance of common shares upon conversion of preference shares, and the exchange of common shares for convertible and sinking fund debentures. In 1981, common shares were also repurchased for the treasury.

4% Preferred Shares. Preferred shares are redeemable at the option of the Company at $100 per share. Shareholders are entitled to $100 per share in the event of involuntary liquidation in preference to the $4.75 preference and common shares.

The Company is obligated to set aside on May 1 of each year a $2.0 million purchase fund which is to be used in the following 12 months for the purchase of preferred shares, if obtainable, in the open market at the best prices obtainable. The Company's bid prices are determined weekly by a formula based upon a published industrial preferred stock yield average; provided, however, that at no time will the Company bid less than $75 per share nor more than $100 per share. If any portion of a purchase fund installment is not so expended during the 12 months following the date set aside, the balance will be available for general corporate purposes. In 1981, 1980, and 1979, preferred share purchases were 37,247, 11,860, and 4,191, respectively. Aggregate amounts expended in each calendar year for these purchases from the funds established on May 1, 1978, through May 1, 1981, were as follows: 1981 purchases—$2.8 million; 1980 purchases—$.9 million; and 1979 purchases—$.3 million. Preferred shares previously issued and subsequently acquired by the Company are retired; they cannot be reissued.

$4.75 Preference Shares. Each outstanding preference share is presently convertible into three common shares and is redeemable at the option of the Company at $100 per share. In 1981, 1980, and 1979, 181,491, 107,265, and 499 preference shares were converted into 544,473, 321,795, and 1,497 common shares, respectively.

In the opinion of counsel, there are no restrictions upon retained earnings by reason of the excess of the involuntary liquidation preference over the stated value of the preference shares.

The Board of Directors may authorize additional series of preference shares and may set the terms of each new series as to the number of shares, dividend rate, redemption rights, liquidation price, sinking fund requirements, conversion rights, and certain related matters. Subject to the voting rights in certain circumstances of the 4% preferred shares, preference shares of all series are entitled to general voting rights of one-half vote for each share, voting with the common shares without distinction as to class. Under certain circumstances and with respect to certain matters, the holders of preference shares shall be entitled to one vote for each share and to vote separately as a class.

REPUBLIC AIRLINES, INC.
Balance Sheet

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Liabilities and Stockholders' Equity

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Redeemable Preferred Stock of Subsidiary	28,000	—
Stockholders' Equity		
Common stock	4,412	4,190
Additional paid-in capital	53,811	48,607
Retained earnings	14,125	64,830
	72,348	117,627
	$1,154,567	$1,036,226

Notes to Financial Statements

Note K—Redeemable Preferred Stock of Subsidiary—The company's subsidiary, Republic Airlines West, Inc., has authorized 500,000 shares of $100 par value Cumulative Preferred Stock. In February, 1981, the subsidiary issued 280,000 shares in a private placement with McDonnell Douglas in connection with related aircraft acquisition and financing transactions. Principal terms of the cumulative preferred stock include:

Dividends: Annual cumulative dividends are payable quarterly at an annual rate of 13% through 1987, 16% from 1987 to 1990, 18% from 1990 to 1993, and 20% thereafter.

Optional Call: Callable at any time, at $100 per share plus all unpaid dividends.

Preference: Upon liquidation $100 per share plus unpaid dividends before any distribution to the parent company.

Sinking Fund Redemption: Quarterly redemption of 2½% of the outstanding shares at a price of $100 per share plus dividends unpaid to the redemption date, begins on April 30, 1987, and is calculated to retire all preferred shares by April 30, 1997.

Mandatory Purchase: In case of default, including failure to pay dividends, the shareholder can require the parent company to purchase all or any portion outstanding at $100 per share plus all unpaid dividends. Because an agreement was reached with the preferred stock shareholder, nonpayment of the January 31, 1982 dividend did not constitute a default. In addition, the shareholder may require the parent company to purchase 17,500 shares quarterly beginning May, 1983.

UNITED STATES STEEL CORPORATION
Balance Sheet

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Total current liabilities	2,823.3	2,569.1
Long-term debt, less unamortized discount	2,340.0	2,401.3
Deferred income taxes	732.0	214.9
Deferred credits and other liabilities	387.8	355.4
Estimated provision for costs attributable to shutdown of facilities	273.0	418.7
Redeemable preferred stock of consolidated subsidiary *(Note 12)*	500.0	500.0
Total liabilities	7,056.1	6,459.4

Notes to Financial Statements

Note 12—Redeemable Preferred Stock of Consolidated Subsidiary

Quebec Cartier Mining Company (QCM) has outstanding 5,000,000 shares of U.S. $100 par, non-voting, floating rate, cumulative, redeemable preferred stock. Shares may be tendered by the holders at specified series installment dates from 1982 through 1985, in the amounts of $125.0 million, $208.3 million, $83.3 million and $83.4 million, respectively. If tendered, such shares must be purchased by QCM at par plus accrued dividends. These shares are redeemable at any time by QCM. U.S. Steel has agreed that upon the happening of certain events, it will, upon tender by any holder, purchase such shares at par plus 200% of accrued and unpaid dividends. Based on current market conditions, tender of $125 million is expected in 1982. QCM has commitments from Canadian banks for long-term debt to finance the redemption of these shares.

Quarterly dividends, charged to interest and other financing costs, were paid based on annual floating rates ranging from 7.14% to 11.08% in 1981, 6.37% to 9.91% in 1980, and 5.90% to 7.04% in 1979.

UNITED TELECOMMUNICATIONS, INC.
Balance Sheet

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Capitalization and Liabilities

Common Stock	$ 188,330	$ 180,577
Non-Redeemable Convertible Preferred Stock		
First series	786	931
Second series	4,519	5,470
Other Stockholders' Equity		
Employees stock purchase installments	13,450	5,661
Capital in excess of par or stated value	474,433	427,174
Retained earnings	700,170	564,385
	1,381,688	1,184,198
Redeemable Preferred Stock		
Parent, Third series, redemption value $35,200,000	35,200	36,400
Subsidiaries, aggregate redemption value $19,503,000	19,503	21,736
Non-Redeemable Preferred Stock of Subsidiaries	24,355	24,355
Long-Term Debt	1,672,181	1,669,879

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3. Redeemable Preferred Stock

The redeemable preferred stock as of December 31 is summarized below:

	1981		1980		1979	
	Shares	Amount	Shares	Amount	Shares	Amount
			(Thousands of Dollars)			
United, third series-stated value $100, non-participating, non-voting, cumulative 7¾% annual dividend rate	352,000	$35,200	364,000	$36,400	376,000	$37,600
Subsidiaries—stated values ranging from $1 to $100, annual dividend rates ranging from 5.0% to 12.0%...........	499,050	$19,503	531,060	$21,736	563,070	$23,968

United's third series is to be redeemed from a sinking fund at the rate of 12,000 shares or $1,200,000 per year, until 2008, at which time all remaining shares are to be redeemed. United may redeem additional shares at $105.67 per share and at declining amounts in succeeding years.

The redeemable preferred stocks of subsidiaries are presented at par value or carrying value, whichever more closely corresponds to the involuntary liquidation preference. The annual redemption requirements are $2,233,000 for 1982, $2,433,000 for 1983, $433,000 for 1984 and $458,000 for 1985 and 1986.

In the event of default, the holders of United's and its subsidiaries' redeemable preferred stock are entitled to elect a certain number of directors until all arrears in dividend and sinking fund payments have been paid.

STOCKHOLDERS' EQUITY

AMERICAN EXPRESS COMPANY
Balance Sheet

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Liabilities and Shareholders' Equity

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Total liabilities	22,421	20,147
Preferred shares, issuable in series—authorized, 20,000,000 shares of $1.66⅔ par value:		
Redeemable Series $2.00 Convertible Preferred—issued and outstanding, 420,000 shares in 1981 and 480,000 shares in 1980 stated at mandatory redemption value of $50.00 per share	21	24
Common shareholders' equity:		
Common shares	56	55
Capital surplus	350	326
Net unrealized security gains	80	208
Foreign currency translation adjustment	(6)	
Retained earnings	2,181	1,848
Total common shareholders' equity	2,661	2,437
	$25,103	$22,608

Notes to Financial Statements

4. Redeemable Preferred Shares

The Redeemable Series $2.00 Convertible Preferred Shares are entitled to cumulative cash dividends at an annual rate of $2.00 per share, have a preference in liquidation of $50.00 per share and are convertible into common shares at a rate of .7365 common share for each preferred share.

The Company must redeem, each October 1982 through 1988, 60,000 shares at $50.00 per share. The Company may redeem any outstanding shares on an accelerated basis at a price of $52.00 per share.

CHASE MANHATTAN CORPORATION
Statement of Condition

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Liabilities and Stockholders' Equity

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Total Liabilities	74,841,639	73,501,852
Preferred Stock (Without Par Value—Authorized Shares 7,000,000):		
Redeemable Preferred Stock:		
Authorized and Outstanding Shares 1,630,000	280,000	280,000
Nonredeemable Preferred Stock:		
Authorized and Outstanding Shares 2,500,000	125,000	125,000
Common Stockholders' Equity:		
Common Stock	413,615	406,156
Surplus	536,080	510,523
Retained Earnings	1,643,004	1,366,036
Total Common Stockholders' Equity	2,592,699	2,282,715
Total Liabilities and Stockholders' Equity	$77,839,338	$76,189,567

Notes to Financial Statements

Note 12: Redeemable Preferred Stock

A summary of the respective issues of Redeemable Preferred Stock outstanding at December 31, 1981 and 1980 is as follows:

(Stated Value, $ in thousands)	1981	1980
7½% Series A (130,000 Shares Outstanding at December 31, 1981 and 1980)	$130,000	$130,000
6¾% Series B (640,000 Shares Outstanding at December 31, 1981 and 1980)	64,000	64,000
7.60% Series C (860,000 Shares Outstanding at December 31, 1981 and 1980)	86,000	86,000
Total Redeemable Preferred Stock (1,630,000 Shares Outstanding at December 31, 1981 and 1980)	$280,000	$280,000

Dividends on shares of Series A, B and C are cumulative and payable quarterly at their respective rates set forth above. In the event of liquidation of the Company, the holders of shares of each Series are entitled to receive, before any distribution to the holders of common stock, the stated value plus accrued dividends, except that in the event of voluntary liquidation holders of shares of Series A are entitled to receive the then applicable redemption price as hereinafter described for shares of Series A rather than the stated value.

Holders of shares of Series A, B and C have no voting rights, unless six quarterly dividends on any shares of preferred stock of any series are unpaid.

As hereinafter described, the Company is required to offer to purchase, in each of 1985 and 1986, not less than 26,000 shares of Series A (aggregate stated value $26 million per annum). There are no redemption requirements for the Series B and C during the next five years.

Series A

The Series A shares may be redeemed, as a whole, at any time, at the option of the Company, at prices ranging from $1,037.60 per share prior to July 1, 1982 to $1,000 per share on and after July 1, 1987, plus accrued and unpaid dividends, except that prior to July 1, 1982, the Series A shares may not be redeemed by using the proceeds of certain refinancing operations if the effective cost of money to the Company is less than the dividend rate on the shares of Series A. Notwithstanding the above, in the event of certain changes in the tax treatment of dividends on shares of Series A, the Company is required, at its option, either to offer to exchange for shares of Series A an equal number of shares of preferred stock of a new series having essentially the same features, except that the dividends thereon must result in a certain minimum effective after-tax yield, or to repurchase shares of Series A at $1,000 per share plus accrued dividends. Beginning on February 15, 1985, and on each February 15 thereafter, the Company is required to offer to purchase on the succeeding June 15 not less than 20% of the number of shares of Series A originally issued, at $1,000 per share plus accrued dividends.

One of the original purchasers, which acquired 25,000 shares of Series A, is a subsidiary of a corporation whose Chairman and Chief Executive Officer is a member of the Board of Directors of the Company. All 130,000 shares of the Series A were issued and sold on identical terms and conditions.

Series B and C

Both the Series B and the Series C shares may be redeemed, as a whole or in part, at any time, at the option of the Company at their stated value of $100 per share plus accrued dividends. Beginning on April 15, 1999, and on each April 15 thereafter, the Company is required to redeem, through the operation of an annual sinking fund, 5% of the maximum number of shares of Series B and of Series C, until all such shares are redeemed. The obligation of the Company to make annual sinking fund redemptions is cumulative.

EASTERN AIRLINES, INC.
Balance Sheet

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Liabilities, Capital Stock and Retained Earnings (Deficit)

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Long-Term Debt	815,868	754,172
Long-Term Obligations on Capital Leases	852,055	688,372
Deferred Credits and Other Long-Term Liabilities	33,753	17,961
Redeemable Preferred Stock: (Note F)		
$2.69 Cumulative Preferred Stock—2,000,000 shares issued and outstanding (Liquidation Preference $50,000,000)	47,611	47,513
$3.20 Cumulative Preferred Stock—4,500,000 shares issued and outstanding (Liquidation Preference $97,312,500)	91,727	91,829
	139,338	139,342
Common Stock and Retained Earnings (Deficit):		
Common Stock	24,934	24,871
Capital in excess of par value	352,870	355,380
Earnings (deficit) retained for use in the business	(26,737)	56,255
	351,067	436,506
Less 116,290 and 139,883 shares held in Treasury	(873)	(1,050)
	350,194	435,456
	$2,934,519	$2,816,177

Notes to Financial Statements

Note F—Redeemable Preferred Stock

The Company has authorized 10,000,000 shares of Preferred Stock, of which 2,000,000 shares of $2.69 Cumulative Preferred Stock and 4,500,000 shares of $3.20 Cumulative Preferred Stock were issued and outstanding at December 31, 1981. • • • •

Commencing in February 1978 and in February 1981, respectively, \$2.69 and \$3.20 annual cumulative dividends are payable quarterly when and if declared by the Company's Board of Directors out of funds legally available. No dividends may be paid or declared on the Company's common stock until all dividends accrued and payable on Preferred Shares outstanding have been paid and all funds for sinking-fund payments then due have been paid.

The excess of liquidation value over the carrying value of both issues is being amortized on the interest method over the periods the issues are expected to be outstanding. Amounts representing amortization of such excess are being charged monthly against Retained Earnings.

Other terms of the issues are as follows:

\$2.69 Cumulative Preferred Stock

Preference—Upon liquidation \$25 per share (an aggregate of \$50 million based on Preferred Shares outstanding at December 31, 1981) plus accrued unpaid dividends before any distribution to holders of the Company's common stock.

Optional Redemption—Redeemable at the Company's option, at any time on or after November 15, 1982 on 30 days' notice at \$26.79 per share and thereafter in decreasing amounts to \$25 per share after November 1991.

Sinking Fund Redemption—Annual redemption of 80,000 shares at a price of \$25 per share plus dividends accrued and unpaid to the redemption date, begins on November 15, 1983 and is calculated to retire all Preferred Shares by November 15, 2007. Such redemption may be increased up to an additional 80,000 shares per year on a non-cumulative basis.

The sinking fund requirements for the next five years are as follows (in thousands):

1982	\$
1983	2,000
1984	2,000
1985	2,000
1986	2,000

\$3.20 Cumulative Preferred Stock

Preference—Upon liquidation \$21.625 per share (an aggregate of \$97.3 million based on Preferred Shares outstanding at December 31, 1981) plus accrued unpaid dividends before any distribution to holders of the Company's common stock.

Optional Redemption—Redeemable at the Company's option, at any time on or after November 15, 1985, on 30 days' notice at \$23.76 per share and thereafter in decreasing amounts to \$21.625 per share after November 15, 1997.

Sinking Fund Redemption—Annual redemption of 135,000 shares at a price of \$21.625 per share plus dividends accrued and unpaid to the redemption date, begins on November 15, 1986 and continues through November 15, 1995. Beginning with November 15, 1996, the annual redemption will increase to 225,000 shares at a price of \$21.625 per share plus dividends accrued and unpaid to the redemption date and is calculated to retire all Preferred Shares by November 15, 2009. Such redemption may be increased by 100 percent per year on a non-cumulative basis.

DUKE POWER COMPANY
Balance Sheet

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Capitalization and Liabilities

Capitalization		
Common stock equity	\$2,108,935	\$1,969,140
Preferred and preference stocks without sinking fund requirements	388,610	395,858
Preferred stocks with sinking fund requirements	308,674	316,559
Long-term debt	2,545,694	2,594,008
Total capitalization	5,351,913	5,275,565

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5. Preferred Stocks With Sinking Fund Requirements

At December 31, 1981 and 1980, 10,000,000 shares of preferred stock ($100 par value) were authorized and issuable with or without sinking fund requirements. In addition, 10,000,000 shares of preferred stock A ($25 par value) were authorized at December 31, 1981 and 1980.

Preferred stocks with sinking fund requirements at December 31, 1981 and 1980 were as follows (dollars in thousands):

Rate/Series	Year Issued	Shares Outstanding	1981	1980
7.35% I	1973	$ 600,000	$ 60,000	$ 60,000
8.20% J	1977	500,000	50,000	50,000
8.375% L	1978	500,000	50,000	50,000
8.84% N	1979	500,000	50,000	50,000
11.00% O	1980	500,000	50,000	50,000
10.76% A	1975	2,280,000	57,000	—
		2,340,000	—	58,500
Less: Preferred shares reacquired for current and future sinking fund requirements—at cost				
		Shares Reacquired		
10.76% A		119,998	(2,660)	—
		83,000	—	(1,941)
8.84% N		32,500	(2,430)	—
11.00% O		13,750	(1,236)	—
Current sinking fund requirement				
8.20% J			(2,000)	—
Total			$308,674	$316,559

The annual sinking fund requirements through 1986, net of amounts previously acquired, are $2,000,000 in 1982, $4,000,050 in 1983, $7,900,000 in 1984, $7,900,000 in 1985 and $9,525,000 in 1986, with some additional redemptions permitted at the Company's option.

The call provisions for the outstanding preferred and preference stocks specify various redemption prices not exceeding 111 percent of par values plus accumulated dividends to the redemption date.

THIRD TYPE OF ITEM

CHEMICAL NEW YORK CORPORATION
Statement of Condition

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Total Liabilities	43,365,308	39,708,849
Redeemable Preferred Stock and Stockholders' Equity		
Redeemable Preferred Stock, Without Par Value—Outstanding—500,000 Shares, Adjustable Rate Cumulative (Stated Value—$100)	50,000	50,000
Stockholders' Equity:		
Preferred Stock, Without Par Value	81,415	100,000
Common Stock, $12 Par Value	194,342	179,958
Capital Surplus	361,996	303,625
Accumulated Translation Adjustment	9,536	12,041
Retained Earnings	854,336	711,591
Total Stockholders' Equity	1,501,625	1,307,215
Total	$44,916,933	$41,066,064

Note 11 Redeemable Preferred Stock

The Adjustable Rate Cumulative preferred stock was issued in a private placement in November 1980. The dividend rate on this series will be adjusted at three year intervals and is based on a formula which considers certain commonly used general obligation bond interest rates prevailing at the time the rate is set. In the event that the dividend rate on any pricing date shall exceed 15% per annum, the shares of this series shall be redeemable at the option of the Corporation at a redemption price of $100 per share. The rate for the three year period which began November 1, 1980 is 11.25%. Shares of this series are redeemable, at the option of the Corporation, beginning November 1, 1990 at $106.36 per share and at declining prices to $100.00 per share beginning November 1, 2003. The Corporation is required to redeem at stated value, through a sinking fund, 23,750 shares of this series on November 1 of each year commencing in 1990. An additional 25,000 shares may be redeemed on any sinking fund redemption date at the Corporation's option.

All preferred shares rank prior to the common shares both as to dividends and liquidation but have no general voting rights.

ESMARK, INC.
Statement of Financial Position

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Total assets less current liabilities	1,194,418	1,219,449
Less		
Long-term debt	371,467	384,000
Deferred and noncurrent income taxes		85,528
Pension and related health care programs	158,000	118,700
Other noncurrent liabilities	17,976	18,070
Total	547,443	606,298
Total assets less total liabilities	646,975	613,151
Less redeemable preferred stock (liquidation preference and redemption value, $40,000 each)	37,104	35,799
Common stock and other equity	$ 609,871	$ 577,352
Common stock	$ 12,791	$ 10,240
Other paid-in capital	114,414	118,248
Accumulated earnings	522,419	455,191
Equity adjustment from foreign currency translation	(14,171)	
Cost of common stock in treasury	(25,582)	(6,327)
Common stock and other equity	$ 609,871	$ 577,352
Total assets	$1,743,316	$1,825,837

Financial Comments

Redeemable Preferred Stock

The redeemable preferred stock consists of 400,000 shares of $1 par value Class 2—Series A preferred stock issued and outstanding. Each outstanding share is nonconvertible and nonparticipating, has one-tenth of a vote, a $6.50 cumulative annual dividend and a $100 liquidation preference. The Company may redeem any or all shares at any time and, on or after November 1, 1983, will be required to purchase any shares that may be offered; in each case the price is $100 per share plus dividends accumulated and accrued. The amount shown for this preferred stock includes $.4 million of par value. The excess of the redemption value over the value assigned to the preferred stock is being accrued over an eight year period by a charge to accumulated earnings ($1.3 million in 1981, $1.0 million in 1980, $.9 million in 1979) and is the only change in the amount shown for redeemable preferred stock during the periods presented.

No dividends or distributions may be paid or declared and no purchase or redemptions may be made with respect to stock junior to this preferred stock unless the preferred dividends have been paid or provided for and payment for such preferred stock tendered for redemption has been made.

PAINE WEBBER INCORPORATED
Balance Sheet

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Liabilities and Stockholders' Equity

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Accrued taxes on income	26,620	8,842
Accrued compensation and related expenses	50,752	54,520
Other accrued liabilities and accounts payable	86,938	79,845
Dividend payable to stockholders	1,047	928
	2,966,574	3,266,155
Term debt	96,612	118,347
	3,063,186	3,384,502
Redeemable Preferred Stock, $20 par value:		
7½% Series B Preferred Stock, Issued and outstanding: 1981—18,000; 1980—90,000	1,397	6,846
7½% Series C Convertible Preferred Stock, Issued and outstanding: 1981—72,000	5,570	—
9% Series D Convertible Preferred Stock, Issued and outstanding: 1981—112,000	11,200	—
	18,167	6,846
Non-redeemable Preferred Stock, Common Stock and Other Stockholders' Equity:		
$1.30 Series A Convertible Preferred Stock, $20 par value: Issued and outstanding: 1980—1,354,666	—	27,093
Common Stock, $1 par value, 20,000,000 shares authorized, Issued: 1981—9,517,953; 1980—7,525,828	9,518	7,526
Additional paid-in capital	67,339	37,338
Retained earnings	47,604	37,046
	124,461	109,003
Less 2,000 shares of Common Stock held in treasury, at cost	(16)	(16)
	124,445	108,987
	$3,205,798	$3,500,335

Notes to Financial Statements

Redeemable Preferred Stock, Non-redeemable Preferred Stock,
Common Stock and Other Stockholders' Equity

Of the 2,000,000 authorized shares of Preferred Stock, the Board of Directors has authorized the issuance of 150,000 shares of 7½% Series B Preferred Stock, 72,000 shares of 7½% Series C Convertible Preferred Stock and 112,000 shares of 9% Series D Convertible Preferred Stock.

The 7½% Series B Preferred Stock is entitled to a cumulative annual dividend of $7.50 per share, payable semi-annually, must be redeemed at $100 per share beginning July 31, 1985 at an annual rate of 4% of the number of such shares outstanding on July 31, 1985, and has a stated value, redemption value and liquidation preference of $100 per share. The difference between the carrying value and the stated value is being accreted by periodic charges to retained earnings over the period during which shares are outstanding. These charges are added to the preferred dividend requirements in computing net earnings applicable to common shares and earnings per common share.

On July 9, 1981, PW and INA Corporation and certain of its subsidiaries (INA) executed and delivered a Stock Purchase Agreement (the "Agreement"). Pursuant to the Agreement, PW issued to INA (i) 72,000 shares of 7½% Series C Convertible Preferred Stock, stated value, redemption value and liquidation preference of $100 per share, in exchange for 72,000 shares of 7½% Series B Preferred Stock, (ii) 100,000 shares of 9% Series D Convertible Preferred Stock, stated value, redemption value and liquidation preference of $100 per share, in exchange for 9% Junior Subordinated Debentures due January 1, 1982, in the principal amount of $10,000,000 and (iii) 12,000 shares of 9% Series D Convertible Preferred Stock in exchange for 10% Junior Subordinated Debentures due January 1, 1982, in the principal amount of $1,200,000.

Both the 7½% Series C Preferred Stock and the 9% Series D Preferred Stock are convertible into four shares of PW Common Stock (subject to certain anti-dilution provisions), which is equivalent to a conversion price of $25 per share. Additionally, holders of the 9% Series D Preferred Stock are entitled to four votes per share (subject to certain anti-dilution provisions) and to receive cumulative dividends payable semi-annually at an annual rate of $9.00 per share. The 9% Series D Preferred shares are subject to an annual sinking fund redemption commencing on July 31, 1990 sufficient to retire annually 1/7th of the shares outstanding on January 1, 1990 and are callable by PW in whole or in part after July 1, 1984 at a price of $106 per share during the first six months and at prices declining by $.50 per share for each subsequent six-month period to $100 per share, plus accrued dividends. Holders of the 7½% Series C Preferred Stock have no general voting rights but receive cumulative dividends payable semi-annually at an annual rate of $7.50 per share. The 7½% Series C Preferred shares are subject to an annual sinking fund redemption commencing on July 31, 1985 sufficient to retire annually 4% of the shares outstanding at January 1, 1985 and are callable by PW in whole or in part after January 1, 1983 at a price of $106 per share during the first six months and at prices declining by $.50 per share for each subsequent six-month period to $100 per share, plus accrued dividends.

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During the five years following September 25, 1981, redemption requirements of the Company's redeemable preferred stock will aggregate $360,000 and $720,000 during the years 1985 and 1986, respectively.

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AS AN ITEM THAT CAN BE INTERPRETED AS EITHER A LIABILITY, AN ELEMENT OF STOCKHOLDERS' EQUITY, OR AS A THIRD TYPE OF ITEM

AMERICAN BRANDS, INC.
Balance Sheet

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Total current liabilities	1,393,092	1,338,502
Long-term debt	573,562	536,102
Deferred income taxes	98,661	129,581
Redeemable Preferred stock		
$2.75 Preferred stock, without par value, stated value and mandatory redemption price $30.50 per share	167,980	167,980
Convertible Preferred stocks—redeemable at Company's option		
$2.67 Convertible Preferred stock, without par value, stated value $30.50 per share	72,795	96,073
$1.70 Convertible Preferred stock, without par value, stated value $20 per share	972	2,447
Total convertible preferred stocks	73,767	98,520
Common stockholders' equity		
Common stock, par value $3.125 per share	179,352	179,352
Paid-in surplus	57,033	58,923
Equity in net unrealized depreciation on investments in marketable equity securities of The Franklin Life Insurance Company	(32,281)	(22,745)
Equity adjustment from translating foreign currency financial statements	(84,332)	32,817
Retained earnings	1,784,518	1,596,020
Treasury stock, at cost	(78,328)	(90,882)
Total common stockholders' equity	1,825,962	1,753,485
Total liabilities and stockholders' equity	$4,133,024	$4,024,170

Notes Accompanying Financial Statements

Redeemable Preferred Stock

At December 31, 1981, 1980 and 1979, there were 5,507,528 shares of the $2.75 Preferred stock issued and outstanding. The holders of the $2.75 Preferred stock are entitled to cumulative dividends, to one-quarter of a vote per share (in certain events, to the exclusion of the Common shares and other Preferred stock issues) and to preference in liquidation over holders of Common stock of $30.50 per share, plus accrued dividends. Whenever six quarterly dividend payments on the Preferred stock are in default and until all such dividends have been paid, such holders (in addition to the right to vote with the Common stock and other Preferred stock for the election of directors) may vote separately as a class to elect two of the directors then being elected. The Company will be required on March 10, 1985, and each year thereafter to redeem 3%, and will have the non-cumulative option to redeem an additional 3%, of the number of shares of original issue at a price of $30.50 per share, plus accrued dividends. The 3% annual mandatory redemption amounts to 165,226 shares, or $5,040,000. The Company may also redeem such Preferred stock on or after March 10, 1989, at prices beginning at $31.88 per share and declining to $30.50 per share on March 10, 1999, plus accrued dividends. There are also certain restrictions against the declaration or payment of dividends on Common stock or the acquisition of Common stock by the Company if it is in default on any dividends on the $2.75 Preferred, and the Company may not pay any dividends on Common stock or purchase or redeem any shares of Common stock or shares of any present series of Preferred stock if the Company is in default on redemption payments on the $2.75 Preferred.

ASHLAND OIL, INC.
Balance Sheet

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Liabilities and Stockholders' Equity

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Total current liabilities	1,637,164	1,354,988
Long-term debt—less current portion	583,290	462,359
Capitalized lease obligations—less current portion	186,776	166,725
Other long-term liabilities	115,416	97,535
Deferred income taxes	206,254	123,463
Minority interest in consolidated subsidiaries	38,941	—
Redeemable preferred stock (1981 liquidation value—$374,419,000)—Note H	357,790	245,372
Common stockholders' equity		
Common stock	26,813	26,649
Paid-in capital	168,108	96,897
Retained earnings	782,060	786,916
	976,981	910,462
Less common shares in treasury	5,179	3,290
	971,802	907,172
	$4,097,433	$3,357,614

Notes to Financial Statements

Note H—Redeemable Preferred Stock

Cumulative redeemable preferred stock consists of 15,000,000 authorized shares, without par value, issuable in series. At September 30, 1981, 6,798,000 shares of preferred stock were outstanding as follows: $3.96 Series, 3,482,000 shares; 8.375% Series, 40,000 shares; 8.50% Series, 50,000 shares; and $4.50 Series, 3,226,000 shares. Except for the $4.50 Series, all shares are voting.

(In Thousands)		Convertible				Nonconvertible		
	$5.00 Series of 1969	$2.40 Series of 1970	$5.00 Series of 1970	$3.96 Series of 1981	8.375% Series of 1974	8.50% Series of 1976	$4.50 Series of 1980	Total
Balance at October 1, 1978	$52,975(1)	$9,260(1)	$36,628(1)	$ —	$50,000	$50,000	$ —	$198,863
Converted 527,000 shares of $5.00 Series of 1969, 813,000 shares of $2.40 Series of 1970 and 88,000 shares of $5.00 Series of 1970	(52,975)	(9,260)	(36,215)					(98,450)
Redeemed 5,000 shares					(5,000)			(5,000)
Balance at September 30, 1979	—	—	413	—	45,000	50,000	—	95,413
Converted 3,000 shares and cancelled 1,000 shares			(413)					(413)
Issued 3,556,000 shares in exchange for common stock							160,022	160,022
Purchased 159,000 shares							(7,150)	(7,150)
Redeemed 2,500 shares					(2,500)			(2,500)
Balance at September 30, 1980	—	—	—	—	42,500	50,000	152,872	245,372
Issued 3,482,000 shares in the acquisition of Integon				121,859				121,859
Purchased 171,000 shares							(7,713)	(7,713)
Redeemed 2,500 shares					(2,500)			(2,500)
Other changes				772				772
Balance at September 30, 1981	$ —	$ —	$ —	$122,631	$40,000	$50,000	$145,159	$357,790

(1) Includes excess of $96,407,000 of redemption price over stated value of redeemable preferred stock.

All of the above preferred stocks are carried at redemption value except for the $3.96 Series. The $3.96 Series was recorded at its $35 per share fair value at the date of issuance. The difference between the fair value and the redemption price of $40 per share is being amortized over the life of the issue. Shares of this issue are convertible into common stock on a one for one basis.

Mandatory redemption requirements for the 8.375% Series and 8.50% Series are $5,625,000 for each of the next five years. Annual mandatory redemption requirements for the $3.96 Series and $4.50 Series begin in 1987 ($6,963,000) and 1990 ($4,517,000 in 1990 and $6,115,000 thereafter), respectively.

Ashland also has 15,000,000 authorized shares of cumulative preference stock, without par value, issuable in series. None of these shares have been issued at September 30, 1981.

GEORGIA PACIFIC CORPORATION
Balance Sheet

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Liabilities and Shareholders' Equity

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Long-term debt, excluding current portion	1,368,000	1,102,000
Convertible subordinated debentures, excluding current portion, 5¼%	119,000	125,000
Deferred income taxes	545,000	427,000
Employee stock purchase plan	5,000	2,000
Redeemable preferred stock (Note 6)		
Adjustable rate convertible preferred stock, without par value, authorized 10,000 shares (involuntary liquidating value $39.00 per share)		
Series A, 4,141 shares issued and outstanding	142,000	139,000
Series B, 959 shares issued and outstanding	31,000	30,000
Series C, 1,343 shares issued and outstanding	30,000	—
	203,000	169,000

Common shareholders' equity		
Common stock, par value $.80	83,000	82,000
Additional paid-in capital	1,028,000	1,028,000
Retained earnings	950,000	928,000
Less—Common stock held in treasury	(135,000)	(138,000)
	1,926,000	1,900,000
	$5,060,000	$4,512,000

Notes to Financial Statements

6. Redeemable Preferred Stock

	Adjustable Rate Convertible Preferred Stock			
	Series A	Series B	Series C	Total
Balance, December 31, 1978	$ —	$ —	$ —	$ —
Stock issued for acquisitions	133,000	28,000		161,000
Amortization of the excess involuntary liquidating value over fair value at acquisition date	3,000	1,000		4,000
Balance, December 31, 1979	136,000	29,000	—	165,000
Amortization of the excess involuntary liquidating value over fair value at acquisition date	3,000	1,000		4,000
Balance, December 31, 1980	139,000	30,000	—	169,000
Stock issued for acquisition			28,000	28,000
Amortization of the excess involuntary liquidating value over fair value at acquisition date	3,000	1,000	2,000	6,000
Balance, December 31, 1981	$142,000	$ 31,000	$ 30,000	$203,000

The adjustable rate convertible preferred stock ("preferred stock") is recorded at fair value on the date of issue. The excess of involuntary liquidating value over such fair value is amortized over a ten-year period by a charge to retained earnings and corresponding credit to preferred stock.

Each share of preferred stock is entitled to receive cumulative quarterly cash dividends at the annual rate of $2.24. Such dividend rate is subject to increase up to a maximum of $4.00 per share should the corporation fail to make the scheduled purchase offers described below unless the average of the last reported sales prices for the corporation's common stock during a prescribed period of time is at least 108% of the conversion price of the preferred stock during such period. Subject to adjustment for common stock dividends and splits, each share of preferred stock has a conversion price of $39.00, and has an involuntary liquidating value of $39.00, is convertible into one share of common stock and is entitled to one vote. In addition, whenever six quarterly dividends on Series A preferred stock are unpaid, the holders of such Series A stock are entitled to elect two directors of the corporation until all past dividends have been paid.

Subject to the price of the corporation's common stock and the appropriate action by the Board of Directors, the corporation is scheduled to make offers to purchase, at a price of $39.00 per share plus accumulated dividends, a specified number of shares annually beginning with 828,000 shares in 1984, 1,020,000 shares in 1985 and 1,289,000 shares in 1986.

The preferred stock will be subject to redemption (Series A—1984 through 1988; Series B—1985 through 1989 and Series C—1986 through 1990) at $39.00 per share plus accumulated dividends provided that the average of the last reported sales prices for the corporation's common stock is at least 125% of the then conversion price of the preferred stock. Thereafter, the preferred stock may be redeemed, without limitation, at $39.00 per share plus accumulated dividends.

GULF & WESTERN INDUSTRIES, INC.
Balance Sheet

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Liabilities and Stockholders' Equity

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Total Current Liabilities	$1,438,188	$1,372,631
Deferred Liabilities	359,193	327,652
Long-Term Debt, net of current maturities	1,750,628	1,801,162
Minority Interest	137,207	218,875
Redeemable Preferred Stock, $5.75 Sinking Fund Preferred Stock, recorded at liquidation and mandatory redemption price of $100.00 a share—Note G	28,970	30,361
Convertible Preferred and Common Stockholders' Equity—Note H		
Cumulative Convertible Preferred Stock, recorded at $2.50 par value:		
Series C $3.875	$ 476	$ 692
Series D $2.50	4,907	6,230
Common Stock	75,735	56,555
Paid-in surplus	608,538	336,817
Retained earnings	1,478,435	1,262,303
Net unrealized gain on marketable equity securities of unconsolidated finance and insurance subsidiaries	10,947	3,498
	$2,179,038	$1,666,095
	$5,893,224	$5,416,776

Notes to Financial Statements

Note G—Redeemable Preferred Stock

The $5.75 Sinking Fund Preferred Stock has an annual dividend rate of $5.75 a share. Each year the Company is required to redeem 5% of the shares outstanding at $100.00 a share. Minimum redemption requirements for the five fiscal years subsequent to July 31, 1981 are as follows: 1982—$536,000; 1983—$1,422,000; 1984—$1,351,000; 1985—$1,283,000 and 1986—$1,219,000. The Company may, at its option, redeem additional shares at $100.50 a share. At July 31, 1981 and 1980, 535,535 and 550,716 shares of $5.75 Sinking Fund Preferred Stock, respectively, were authorized. At July 31, 1981, 289,704 shares, excluding 9,129 shares held in treasury, were outstanding and at July 31, 1980, 303,614 shares, excluding 10,400 shares held in treasury, were outstanding. Each share of $5.75 Sinking Fund Preferred Stock is entitled to one vote.

PANTRY PRIDE, INC.
Balance Sheet

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Liabilities, Redeemable Preferred Stocks, Common Stock
and Other Elements of Stockholders' Equity:

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Redeemable preferred stocks	32,611	1,619
Common stock, par value $0.01	96	76
Capital in excess of par	60,662	57,385
Deficit	(49,116)	(199,270)
	$223,169	$365,982

Notes to Financial Statements

Plan of Arrangement

In accordance with the Plan, the Company has paid or is obligated to pay its creditors cash and stock in the Company in a manner which is summarized as follows:

Disposition Proceeds (net amounts realized from sales of assets sold or related to operations discontinued or terminated before confirmation).

$10,000 annually (Fixed Payments, in semi-annual installments of $5,000) for up to 20 years starting with Confirmation and continuing through a period (the Payment Period) of 16 years beginning no later than January 15, 1985 after cash payments (see Note entitled "Long-Term Debt") of 45% of claims have been made to Class 1 and Class 2 creditors and 5% of claims have been made to Class 3 creditors, plus $8,500 (in addition to the $5,000 semi-annual payments) in the sixteenth year of the Payment Period.

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The cash to be paid out by the Company will be applied during the 16 year Payment Period to retirement of and dividends on the following Redeemable Preferred Stock with total liquidation value of approximately $154,446. The difference between the liquidating value and the fair value of $30,992 as shown below will be accreted to the applicable preferred stock over the next twenty years by charges to capital in excess of par and then, to the extent necessary, retained earnings.

	1981
Series A Liquidating preferred, authorized 4,380,000 shares; $1.00 par value; issued 3,997,740 shares; entitled to $10 per share or $39,977 in liquidation, valued at date of issue at $3.37 per share. The series is entitled to certain cash dividends to the extent of available cash to reach 80% of the original claim amount	$13,493
Series B Liquidating preferred, authorized 4,700,000 shares; $1.00 par value; issued 4,462,260 shares; entitled to $10 per share or $44,622 in liquidation, valued at date of issue at $1.82 per share	8,132
Series C Liquidating preferred, authorized 540,000 shares; $1.00 par value; issued 540,000 shares; entitled to $10 per share or $5,400 in liquidation, valued at date of issue at $2.34 per share	1,263
Class A $1.00 cumulative convertible preferred; $0.40 par value; authorized 5,100,000 shares; issued 4,470,767 shares; entitled to $10 per share or $44,708 in liquidation, valued at date of issue at $1.47 per share	6,593
Class B $0.686 cumulative preferred; $0.40 par value; authorized 2,100,000 shares; issued 1,973,928 shares; entitled to $10 per share or $19,739 in liquidation, valued at date of issue at $0.77 per share	1,511
Total redeemable preferred stock issued in compliance with the Plan	30,992
1951 Series $4.20 cumulative preferred; $1.00 par value; 16,190 shares authorized and issued. Not included in fixed payments noted above	1,619
	$32,611

In accordance with Delaware corporate law the $32,611 balance is classified as follows: $15,461 is the aggregate par value and $17,150 is the aggregate capital in excess of par.

All Class A and Class B Preferred Stock outstanding at the end of the Payment Period will be automatically converted into shares of Common Stock of the Company having the same ratio to total outstanding Common Stock after such conversion as the then aggregate redemption prices of such Preferred Stock bears to the excess of consolidated assets over consolidated liabilities.

The Preferred Stock (other than the Company's 1951 Series Preferred Stock which has one vote per share) shall have from time to time through the Reference Date a sufficient number of votes per outstanding share so as together with the Common Stock issued to the Creditors, to aggregate at least 81%.

The Plan contains covenants which, among other matters, (i) require the Company to maintain specified levels of consolidated tangible net worth; (ii) forbid borrowed indebtedness secured by certain inventories; (iii) restrict the payment of cash dividends; and (iv) limit the extent to which the Company may acquire or dispose of specified assets.

The redemption requirements through 1986 are as follows:

	1985	1986
Series A Liquidating	$3,331	$ 6,663
Series B Liquidating	1,369	2,737
Series C Liquidating	300	600
Class A Cumulative		
Class B Cumulative		
1951 Series Cumulative	40	40
	$5,040	$10,040

INTERNATIONAL PAPER COMPANY
Balance Sheet

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Liabilities, Preferred Stock, and Common, Share Owners' Equity

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Long-Term Debt	831.1	928.6
Deferred Income Taxes	382.0	288.5
Other Liabilities and Minority Interest	94.9	111.1
Cumulative $8.75 Redeemable Preferred Stock, Series A, $1 Par Value at Mandatory Redemption Value of $100 per Share (Note 12)	300.0	300.0
Cumulative $4 Non-Redeemable Preferred Stock, No Par Value at Stated Value of $100 per Share	3.2	3.6
Common Share Owners' Equity		
Common stock, $1 par value	50.0	49.7
Capital from conversion of 5% preferred stock	40.4	40.4
Paid in capital	760.4	761.2
Retained earnings	2,357.5	1,977.7
	3,208.3	2,829.0
Less: Common shares held in treasury, at cost	14.1	15.3
Total Common Share Owners' Equity	3,194.2	2,813.7
Total Liabilities, Preferred Stock, and Common Share Owners' Equity	$5,544.3	$5,197.4

Notes to Financial Statements

Note 12. Redeemable Preferred Stock

At both December 31, 1981 and 1980, 3 million shares of $8.75 Cumulative Preferred Stock were issued and outstanding (15 million serial preferred shares are authorized). Beginning January 1, 1986, and on each January 1 through 2000, the Company is required to redeem 6.67% of the issue and has the option to redeem an additional 6.67% of such shares on up to five redemption dates. All redemptions made in this manner have a redemption price of $100 per share. The Company may also, at its option, redeem this preferred stock, in whole or in part, at any time after January 1, 1985, at a price of $106.18, which redemption price is reduced each year to a minimum of $100 in 1997 and thereafter.

III

UNCONDITIONAL PURCHASE OBLIGATIONS

Unconditional purchase obligations are often concluded as part of the financing of major capital projects in which the lender looks primarily to the cash flows and earnings of the project as the source of funds for repayment of the loan. An unconditional purchase obligation is an obligation to transfer funds in the future for fixed or minimum amounts or quantities of goods or services at fixed or minimum prices. Take-or-pay and throughput contracts are common types of unconditional purchase obligations.

Accounting for unconditional purchase obligations that meet certain criteria is specified in FASB Statement No. 47. The following information must be disclosed for an obligation that meets the criteria and is not reported as a liability in the purchaser's balance sheet:

- The nature and term of the obligation
- The amount of the fixed and determinable portion of the obligation in the aggregate and, if determinable, for each of the five succeeding years
- The nature of any variable components of the obligation
- The amounts purchased under the obligation for each period for which an income statement is presented

Thirteen examples are presented below of the disclosure of information, to the extent applicable under Statement 47, about throughput and take-or-pay contracts.

THROUGHPUT CONTRACTS

ASHLAND OIL, INC.
Notes to Financial Statements

Note G—Leases and Other Commitments

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Other Commitments

Ashland is committed under throughput and deficiency agreements related to a deepwater offshore port and related pipeline facilities in the Gulf of Mexico operated by LOOP INC. and LOCAP INC., companies in which Ashland has equity interests • • • •. If these companies are unable to meet their financial obligations, Ashland may be required to advance funds against future transportation charges. Such advances are limited to Ashland's share, based on its equity interests, of the debt service and defined operating and administrative costs of these companies. Such advances, however, may be reduced by (1) transportation charges Ashland paid, (2) a pro rata portion of transportation charges paid by other equity participants in excess of their required amounts and (3) a pro rata portion of transportation charges paid by third parties who are not equity participants.

Outstanding long-term debt of LOOP INC. at September 30, 1981 aggregated $675,000,000, under which debt service costs will average $67,974,000 for each of the next five years.

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TEXAS EASTERN CORPORATION
Notes to Financial Statements

Note 16—Commitments and Contingent Liabilities

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In connection with certain financing by Texoma Pipe Line Company, in 1976 the Company and others entered into a 30-year throughput agreement with Texoma severally guaranteeing to ship sufficient petroleum through Texoma's pipeline system, and in certain circumstances to make cash advances for future transportation, such that Texoma is able to meet its cash requirements, including those for payment of principal and interest on debt outstanding. The Company does not expect to incur any material liabilities as a result of this agreement.

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TOSCO CORPORATION
Notes to Financial Statements

18. Commitments and Contingencies

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Tosco is a party to a Shareholders' Agreement under which it acquired a 5% interest in Texoma Pipeline Company (Texoma). Tosco is obligated, pursuant to a throughput agreement and guaranty, to guarantee the repayment of borrowings at December 31, 1981 of approximately $4,503,000 in connection with construction and operation of a pipeline by Texoma.

TAKE-OR-PAY CONTRACTS—NATURAL GAS

ALAGASCO, INC.
Notes to Financial Statements

8. Gas Prepayments

In addition to the gas purchase contract with its major supplier, Alabama Gas Corporation has contracts for the purchase of gas from the Black Warrior Basin in northwest Alabama. The northwest Alabama contracts provide for the purchase of minimum annual volumes of gas on a take-or-pay basis. As a result of successful drilling activity in the area, take-or-pay obligations have exceeded purchases, and Alabama Gas had a balance in gas prepayments of $12,575,000 as of September 30, 1981. This prepayment obligation reached a peak of $14,759,000 during the year ended September 30, 1981. It is estimated that this prepaid balance will decline during the year ending September 30, 1982. Any additional prepayments beyond that time will depend on general market requirements combined with the winter weather pattern, the interstate gas supply level and the Company's ability to market excess intrastate gas to others. As provided in the contracts, prepayments will be applied against future purchases which are in excess of the take-or-pay obligations under the contracts. Alabama Gas Corporation's Purchased Gas Adjustment clauses contain provisions which allow an interest charge related to gas prepayments to be charged currently in the rates to customers.

AMERICAN NATURAL RESOURCES COMPANY
Notes to Financial Statements

7. Take-or-Pay Obligations

Included in Prepayments and Advance Payments for Gas Supply are $43,533,000 and $8,207,000 at December 31, 1981 and 1980 incurred under provisions of gas purchase contracts with producers which require Michigan Wisconsin to take or pay for minimum volumes. The gas purchase contracts provide the right to take the gas at later dates. The right of make-up is limited in time, generally to five years. Payments made through December 31, 1981 are expected to be recovered.

The potential exists that take-or-pay obligations for 1982 and 1983 will be substantially in excess of those incurred to date. Management is actively pursuing alternatives to mitigate the adverse impacts of these obligations.

PACIFIC GAS AND ELECTRIC COMPANY
Notes to Financial Statements

Note 6 Commitments and Contingencies

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The Company is required to make take-or-pay or minimum payments to Canadian gas producers if it does not take the contractual minimum annual volume of natural gas during a contract year. During 1981, the Company negotiated reductions in the minimum purchase requirements under Canadian gas purchase contracts through June 30, 1982, including a reduction in take-or-pay obligations under a substantial portion of the contracts with Canadian gas producers. The amended contracts with the producers also provide for reimbursement to the Company for payments made for gas not taken to the extent such prepaid gas is not delivered to the Company prior to the expiration of the contracts.

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MIDCON GROUP OF PEOPLES ENERGY CORPORATION
Notes to Financial Statements

(14) Capital Commitments

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Take-or-Pay Provisions

Gas purchase contracts with producers contain provisions which require Natural to take or pay for minimum volumes on an annual basis. While Natural's gas purchase contracts provide it with the right to take such gas at a later date, such rights apply only to future volumes taken above the take-or-pay level and the right of make-up is limited in time, generally to five years. Take-or-pay payments are being made only in those situations where Natural has reasonable expectation of recovery in gas or dollars.

Through November 19, 1981, $41.6 million of take-or-pay payments have been made. In addition, take-or-pay exposure for gas not taken through the remainder of fiscal 1982 is estimated currently at $88.5 million, exclusive of the HIOS, UTOS and Stingray areas discussed below. In order to manage near-term excess deliverability, Natural has executed several short-term, off-system sales agreements and has increased its use of storage facilities. At the end of fiscal 1981, certain of these off-system sales were approved by the FERC and some gas was being sold, while other off-system sales applications were still awaiting the FERC's approval. Extension of approved off-system sales agreements and/or execution of new off-system sales agreements may be necessary to minimize the impact of take-or-pay.

Natural will capitalize payments made under the take-or-pay provisions. In Natural's rate proceeding initiated in 1980 and now pending before the FERC, the parties reached a tentative agreement to include in rate base amounts paid pursuant to take-or-pay provisions. The Company believes the ultimate resolution of the take-or-pay provisions will not have a material adverse effect on its financial position.

Offshore Ventures—Force Majeure

Natural's gas purchase contracts with producers for gas in the Outer Continental Shelf Area which must be transported through the Stingray, HIOS, or the UTOS Systems contain take-or-pay provisions together with make-up rights. Natural has notified such producers that it has insufficient allocated capacity in these systems to take gas under these contracts to meet annual contractual obligations. Natural advised the producers that such inability to take gas constitutes *force majeure* and that, due to such *force majeure*, Natural is not obligated to take or pay for gas which Natural has been or is unable to take. HIOS and UTOS have received FERC approval for an initial expansion of their respective systems, but because of the capacity allocations included in this order, HIOS has filed both a conditional acceptance and a petition for rehearing of this order. If the FERC order, as issued, is ultimately upheld, Natural believes its ability to transport gas through this system will be further adversely affected because of the capacity allocations included therein; therefore, it has also filed a petition with the FERC for a rehearing of this matter. The FERC has taken no action on HIOS' major expansion application filed in June, 1980.

Natural estimates the value of volumes not taken because of *force majeure* to be approximately $57 million in fiscal 1981 and $55 million in fiscal 1982. If Natural were required in the future to pay for all gas tendered to it in such areas regardless of its ability to take such volumes, Natural would be faced with additional costs and financing requirements. Natural believes that the FERC, and ultimately the courts, may be required to resolve this matter, and that the ultimate resolution will not have a material adverse effect on its financial position.

SOUTHERN UNION COMPANY
Notes to Financial Statements

Other Deferred Charges

Other deferred charges include $13,175,000 (1980—$9,173,000) of exchange gas recoverable from suppliers; $1,200,000 (1980—$1,326,000) gas purchase deficiencies under take-or-pay contracts recoverable in the future; and $2,965,000 (1980—$5,584,000) of miscellaneous items.

TAKE-OR-PAY CONTRACTS—OTHER COMMODITIES

ALCAN ALUMINUM LIMITED
Notes to Financial Statements

12. Commitments and Guarantees

To assure long-term supplies of bauxite and access to alumina and fabricating facilities, Alcan participates in several long-term cost sharing arrangements with related companies. Alcan's fixed and determinable commitments, which are comprised of long-term debt service in one joint venture and "take-or-pay" obligations in others, are estimated at $158 in 1982, $180 in 1983, $181 in 1984, $189 in 1985, $181 in 1986 and $1,587 thereafter. In addition, Alcan is guarantor of $148 of long-term debt of certain of the related companies. Alcan's total charges from these related companies were $214 in 1981, $206 in 1980 and $143 in 1979.

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ESMARK, INC.
Financial Comments

Other

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Estech, Inc. ("Estech") has two take-or-pay contracts with a major chemical company whereby Estech is obligated to purchase a minimum of 135,000 tons per year of phosphate chemical products. Estech has the option to make reduced alternate payments instead of accepting delivery on these products. In 1981, 1980 and 1979, Estech purchased amounts of phosphate chemical products that approximated the minimum required by the contracts; no alternate payments have been made to date.

The take-or-pay contracts began in 1975 and extend until 1987. Alternate payments are set using a base price which is escalated for certain supplier costs. Future alternate payments under the take-or-pay contracts, which are not recorded as liabilities, are estimated to be (in millions):

1982	$ 8.1
1983	7.6
1984	8.1
1985	8.6
1986	9.2
1987	9.8
Total	$51.4

THE KANSAS POWER AND LIGHT COMPANY
Notes to Financial Statements

3. Commitments

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The Company has a long term coal supply contract with AMAX, Inc., to supply coal to fuel the four planned Jeffrey Energy Center (JEC) units for their expected lives. Subsequent to entering into the contract, the joint owners rescheduled the construction of the JEC Units and indefinitely postponed Unit No. 4. The contract contains a schedule of annual delivery quantities with take or pay provisions applicable to deficiencies exceeding 5% of the scheduled delivery. The 1981 delivery was deficient by approximately 700,000 tons and in accordance with the contract provisions, the Company has an eighteen month period to dispose of the deficiency or pay a portion of the purchase price of the deficient amount of coal. The Company is currently reviewing the contract options to resolve the deficiency and preserve the favorable price of coal in the contract.

OGLEBAY NORTON COMPANY
Notes to Financial Statements

Note B—Equity in Net Assets of the Eveleth Mines

Investments and receivables include $18,644,798 and $15,239,412 at December 31, 1981 and 1980, respectively, representing a 15% interest in Eveleth Taconite Company (ETC) and a 20.5% interest in Eveleth Expansion Company (EEC). The following is a summary of the components of the Company's equity in the net assets of these companies at December 31:

	1981	1980
Current assets	$ 9,328,727	$ 6,050,783
Properties—net	55,790,870	58,793,160
Other assets	1,656,638	1,884,640
Total Assets	66,776,235	66,728,583
Current liabilities	8,276,067	8,924,289
Current portion of long-term debt	2,812,600	2,812,600
Long-term debt		
Series A First Mortgage Bonds		
9½%	29,315,000	31,570,000
10%	7,248,800	7,806,400
	36,563,800	39,376,400
Other liabilities	478,970	375,882
Total Liabilities	48,131,437	51,489,171
Equity in Net Assets	$18,644,798	$15,239,412

The Bonds mature serially to 1995 with payments of $1,406,300 required each February 1 and August 1. Purchases by the Company under a take-or-pay contract associated with the long-term obligations amounted to $35,333,000 for the year ended December 31, 1981.

The Company and its partners in Eveleth Mines are required to reimburse ETC and EEC for all costs incurred in production, including EEC's debt service, in proportion to their ownership, and production is taken by the participants in like proportion. The Company's share of production of ETC and EEC is sold at prevailing market rates under long-term contracts which exceed the term of the debt.

STANDARD OIL COMPANY (INDIANA)
Notes to Financial Statements

22. Other Contingencies

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The company has contracted on a take-or-pay basis to purchase certain quantities of materials used in oil and gas producing activities beginning in 1984. The contracted quantities are not in excess of anticipated requirements and will be acquired at prevailing market prices at the time of shipment. The company's minimum obligations under the contract are shown below.

	Minimum Payments (millions of dollars)
1984	$ 7
1985	13
1986	13
After 1986	99
Total	$132
Total at present value	$ 48

IV

OTHER TYPES OF INNOVATIVE FINANCING ARRANGEMENTS

Debt-equity swaps involve the issue of capital stock of a corporation to its creditors in exchange for cancellation of debt in circumstances in which an exchange was not provided for in the debt agreement.

Gold or silver indexed bonds are bonds for which the amounts of principal or interest payments are determined by the price of gold or silver at the time of the payments.

Variable (floating) rate notes are long-term debt instruments for which the amounts of interest paid are determined by the current market rate of interest over the period of the debt on a debt instrument of a specified type.

Zero coupon bonds or notes are long-term debt instruments for which none of the required payments are designated as payments of interest.

Thirteen examples are presented below of accounting for those four types of financing arrangements.

DEBT-EQUITY SWAPS

THE BF GOODRICH COMPANY
Statement of Income

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Income before extraordinary gain	91.5	61.7	82.6
Extraordinary gain from exchange of preferred stock for debentures	18.0	—	—
Net income	$109.5	$ 61.7	$ 82.6

Notes to Financial Statements

Extraordinary Gain

In February 1981, Goodrich issued 2,568,291 shares of its $3.125 Cumulative Convertible Preferred Stock, Series C in exchange for $86.8 outstanding principal amount of its 8¼ percent Sinking Fund Debentures and 7 percent Subordinated Debentures. The extinguishment of debt resulted in an extraordinary gain of $18.0 ($.93 per share) which represents the difference between (i) the fair market value of Series C Stock issued, and (ii) the net carrying amount of debentures exchanged after deducting unamortized debt discount and issuance expenses and expenses of the exchange. The exchange was a nontaxable transaction for tax reporting purposes.

NCNB CORPORATION

Statement of Income

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Income before extraordinary items	55,008	49,118	45,131
Extraordinary items:			
Gain on exchange of common stock for long-term debt (Notes 10 and 17)	11,509		
Gain on sale of subsidiary assets, net of income taxes of $1,880			2,023
Net income	$66,517	$49,118	$47,154

Statement of Changes in Shareholders' Equity

	Common Stock Shares	Common Stock Amount	Surplus	Undivided Profits	Excess of Cost Over Market Value of Marketable Equity Securities	Treasury Stock	Total Share-holders' Equity
••••							
Balance on December 31, 1980	20,261,806	50,655	93,037	219,282	(1,776)	(21)	361,177
Net income				66,517			66,517
Exchange of common stock for long-term debt (Notes 10 and 17)	1,333,580	3,334	14,244				17,578
Stock issued under employee stock option and purchase plans	69,852	174	619				793
Stock issued under dividend reinvestment plan	189,877	475	2,308				2,783
Treasury stock transactions, net	(8,370)	(21)				17	(4)
Cash dividends				(16,721)			(16,721)
Other			225		36		261
Balance on December 31, 1981	21,846,745	$54,617	$110,433	$269,078	$(1,740)	$ (4)	$432,384

Notes to Financial Statements

Note 10—Long-Term Debt

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On October 16, 1981, the corporation exchanged 1,333,580 shares of newly issued common stock for $29,004,000 principal value of its sinking fund debentures (see Note 17).

As a result of the 1980 bond repurchase program and the bond/common stock swap completed in the fourth quarter of 1981, the corporation has acquired bonds sufficient to meet the sinking fund requirements on its 8 2/5-percent debentures to November 15, 1985, on its 7 5/8-percent debentures to March 15, 1989, and on its 8 3/8-percent debentures to March 1, 1996.

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Note 17—Common Stock Transactions

On October 16, 1981, the corporation exchanged 1,333,580 shares of newly issued common stock for $29,004,000 principal value of its sinking fund debentures. An extraordinary gain of $11,509,000, which is non-taxable for federal income tax purposes, resulted from the early retirement of the sinking fund debentures.

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PHELPS DODGE CORPORATION
Statement of Consolidated Income

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Income before extraordinary item	58,492	91,314	110,771
Extraordinary item	10,829	—	—
Net income	$69,321	91,314	110,771

Notes to Financial Statements

2. Extraordinary Item

In November 1981 the Corporation issued a total of 777,480 common shares in exchange for $21.3 million principal amount of the Corporation's 8.10% Sinking Fund Debentures due 1996 and $14.4 million principal amount of its 8½% Notes due 1985. As a result of the exchange, the Corporation recognized a tax-free gain of $10.8 million (51¢ per common share) in the fourth quarter of 1981.

10. Long-term Debt and Other Financing

Long-term debt due after one year is summarized below (in millions):

	1981	1980	1979
8½% Notes due 1985	$110.6	125.0	125.0
8.10% Sinking fund debentures due 1982-1996	100.0	100.0	100.0
Less held in treasury	(35.6)	(14.3)	(14.3)

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The 8.10% debentures require sinking fund payments of $6.6 million annually from 1982 through 1995 and are subject to optional redemption at par beginning in 1991. The sinking fund requirements for 1982 through part of 1987 will be satisfied by the delivery of $35.6 million of debentures held in treasury, $21.3 million of which were acquired in 1981 (Note 2) and $14.3 million in 1979.

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GOLD OR SILVER INDEXED BONDS

REFINEMET INTERNATIONAL COMPANY
Notes to Financial Statements

2. Summary of Significant Accounting Policies:

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Gold Indexed Bonds:

Gold indexed bonds and the related inventory pledged as collateral are stated at the equivalent market value of 100,000 troy ounces of gold. Costs incurred in connection with the issuance of the bonds ($3,384,000) are amortized as interest expense over the term of the bonds.

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10. Long-Term Debt:

	Rate	(In thousands) 1981	1980	Maturity
Senior Indebtedness:				
Gold Indexed Bonds (a)		$51,380		1996

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(a) In February 1981, one of the Company's wholly-owned subsidiaries ("Issuer") issued 3¼% gold indexed bonds due February 1, 1996 in an aggregate principal amount indexed to the market price of 100,000 troy ounces of gold for $51,950,000. The bonds are guaranteed primarily on a subordinated basis by the Company and R.M.I. Principal and interest are payable in dollars based on an average market price of gold for a 10-day period before payment or, under certain circumstances, may be payable in gold. Interest is payable annually on February 1st. At the Issuer's option, the bonds are redeemable, among other reasons, if the average price of gold exceeds $2,000 per troy ounce over any consecutive 60-trading-day period. Beginning February 1, 1991, the Issuer will call for redemption of 10% of the original issue through operation of a sinking fund. Gold bullion, futures contracts, certain qualified inventories or a base letter of credit are required to be pledged as collateral for the guarantees. At March 31, 1981, R.M.I. had pledged 36,000 troy ounces of gold ($18,600,000 market value), 59,000 troy ounces of fully paid gold futures contracts ($31,033,000 market value), and a base letter of credit for 5,000 troy ounces of gold ($2,569,000 market value). The payment for the gold futures contracts was invested in a money market fund.

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SUNSHINE MINING CO., INC.
Notes to Financial Statements

Note 7—Short-Term and Long-Term Debt

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The remainder of long-term debt outstanding at December 31, 1981 and 1980 consists of 8½% silver-indexed bonds, $30,000,000 (less current portion of $2,100,000) due April 15, 1995 and $27,500,000 (less current portion of $1,925,000) due December 15, 1995. Capitalized bond issue costs of $3,667,000 are being amortized over the life of the bonds. Each $1,000 face bond is payable at maturity or redemption at the greater of $1,000 or a specified market price of 50 ounces of silver (the "Indexed Principal Amount"). If the Indexed Principal Amount is greater than $1,000, the company at its option may deliver silver to bondholders electing to accept silver in satisfaction of the Indexed Principal Amount.

Bonds may be redeemed in 1985 and thereafter at the discretion of the company, assuming certain conditions are met. Annual sinking fund requirements commencing on issue anniversary dates in 1982 require the company to call 7% of the original issue. Face amount of bonds called but declining redemption will be added to the amount called in subsequent years, limited to 14% per year of adjusted original issue.

The indenture relating to the bonds provides certain restrictions on the payment of cash and stock dividends, issuance of additional silver-related securities, and purchases of treasury stock. All of retained earnings was available for payment of cash dividends and purchase of treasury stock at December 31, 1981. The company may issue additional silver-related securities backed by up to 1,510,000 ounces of silver at December 31, 1981.

The minimum amount of qualified reserves, as defined and required by the indenture at December 31, 1981, was approximately 11,500,000 ounces. The amount of total qualified reserves at December 31, 1981 was approximately 21,925,000 ounces.

The bonds are collateralized by 7.254% interest in the annual mining production of the Sunshine Mine subject to certain limitations.

VARIABLE (FLOATING) RATE NOTES

FIRST BANK SYSTEM, INC.
Notes to Financial Statements

Note I—Long-term Debt

Long-term debt (debt with original maturities of more than one year) at December 31, consisted of the following (in thousands):

	1981	1980
Parent Company:		
8¾% Notes—due June 30, 1983	$ 50,000	$ 50,000
Notes—9.20% to 15.00%—maturities to December, 1985	28,000	27,500
6¼% Convertible Subordinated Debentures—due June 30, 2000	49,497	50,000
Floating Rate Notes—due May 15, 1989	125,000	125,000
10.05% Notes—due June 1, 1983	75,000	75,000
	327,497	327,500

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The Floating Rate Notes may be redeemed on or after November 15, 1986, without a premium. Interest on the Notes is payable semi-annually on May 15 and November 15. The following table shows the interest rate paid for each semi-annual period beginning on November 15, 1979.

Period	Interest Rate
November 15, 1979—May 14, 1980	14.00%
May 15, 1980—November 14, 1980	13.80
November 15, 1980—May 14, 1981	13.50
May 15, 1981—November 14, 1981	15.55

The interest rate per annum for the period November 15, 1981, through May 14, 1982, will be 15.25%. The interest rate per annum for each semi-annual period from May 15, 1982 through May 14, 1984, will be 60 basis points above the then current "interest yield equivalent" of the market discount rate of six-month U.S. Treasury bills and for each semi-annual period thereafter will be 50 basis points above such "interest yield equivalent." The minimum per annum interest rate will be 6%.

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SECURITY PACIFIC CORPORATION
Notes to Financial Statements

8) Intermediate-term Debt; Long-term Debt:

The following is a summary of the major categories of intermediate-term and long-term debt:

$ in millions	December 31, 1981	December 31, 1980
● ● ● ●		
Long-term Debt:		
7.70% Notes due February 15, 1982	$150.0	$150.0
8.80% Notes due December 15, 1985	100.0	100.0
9.75% Convertible Subordinated Debentures due June 15, 2006	100.0	—
Floating Rate Notes due November 24, 1991	100.0	—
Other domestic borrowings	120.7	102.0
Other international borrowings	15.9	13.9
Total	$586.6	$365.9

All Notes and Debentures, except the Floating Rate Notes, are unsecured obligations of the Parent Company. They all were issued at par, except the Zero Coupon Notes which were sold at a discount to yield 13.25% to maturity and have a maturity value of $200,000,000.

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The Floating Rate Notes are obligations of Security Pacific Overseas Finance N.V. (Overseas) and are guaranteed as to principal and interest by the Parent Company. They may be redeemed at par by Overseas on any interest payment date in or after November 1982, or by the holders on the interest payment date in November 1988. The rate for each six month interest period will be ⅛% above the London Interbank Offered Rate for six months maturities, subject to a minimum rate of 5.25%.

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GEORGIA-PACIFIC CORPORATION
Notes to Financial Statements

5. Indebtedness

Long-term debt consists of the following:

	1981	1980
• • • •		
Notes		
6⅞% due 1982	100,000	100,000
7¼% due 1985	100,000	100,000
10.10% due 1990	150,000	150,000
Floating rate, currently 16.90% maturing at holders' option in 1984 due 1987	150,000	150,000
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The $150,000 floating rate notes are convertible by the holder, prior to April 1, 1987, into 8½% debentures due 2009. The notes are not redeemable prior to October 1, 1984. On and after such date, the notes are redeemable in whole or in part, at the option of the corporation. After October 1, 1980 and prior to April 1, 1987, the corporation may convert the notes into fixed rate debentures due 2009 at a defined premium over the yield on 30-year Treasury securities, but not less than 8½%. The conversion by the corporation is subject to the election by the holder to have the notes mature on the specified conversion date. The interest rate on the notes is adjustable semiannually to a rate based upon the six-month treasury bill rate plus a specified premium.

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ZERO COUPON BONDS OR NOTES

CIT FINANCIAL CORPORATION
Notes to Financial Statements

N—Long-Term Debt

Maturity	Rate	Amounts in Thousands
Notes and Debentures		
December 1, 1982	8.85%	$ 150,000
April 1, 1983	4⅜	55,000
September 1, 1984	4½	100,000
January 15, 1985	4¾	100,000
April 1, 1986	7⅞	100,000
October 1, 1986	6⅝	75,000
December 1, 1988	*	99,040
December 15, 1988-1997	8.35	50,000

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*Zero Coupon Debentures which have a yield to maturity of 13.85%. Principal amount at maturity is $250,000,000. Loan proceeds were $97,910,000 and discount amortized in 1981 was $1,130,000.

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DAMSON OIL CORPORATION
Notes to Financial Statements

3. Notes Payable and Long-Term Debt

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Subsequent to September 30, 1981, the Company issued $35,000,000 principal amount of zero coupon subordinated serial notes from which the Company realized $15,552,000 after deducting an original issue discount. The proceeds were used to reduce long-term indebtedness under the revolving credit agreement, substantially all of which was incurred to finance costs attributed to drilling activities and acquiring interests in oil and gas properties. The notes are repayable in four equal installments of $8,750,000 due on October 31, of each year 1984 through 1987. The original issue discount will be amortized over the periods the notes are outstanding.

MARYLAND NATIONAL CORPORATION
Notes to Financial Statements

Note A—Summary of Significant Accounting Policies

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Earnings Per Share

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Fully diluted earnings per share were determined on the assumption that the Corporation's 11.25% Redeemable preferred stock and Zero coupon convertible note were converted and earnings were increased for the interest cost of the note, net of applicable income taxes.

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Note I—Long-Term Debt

At December 31, long-term debt consisted of the following:

	1981	1980	1979
	(in thousands)		
Maryland National Corporation			
8% Notes	$35,000	$35,000	$35,000
Intermediate term notes	4,000	4,000	
Adjustable rate note	5,000	5,000	
Zero coupon convertible note			
Principal	40,000		
Unamortized discount	29,602		
Net payable	10,398		

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The Zero coupon convertible note is an unsecured note of the Corporation having an original discount of $29,663,240 and a nominal interest rate accrual of 14%. The principal amounting to $40,000,000 is payable at maturity on December 17, 1991. This note may be redeemed, in whole or in part, at the option of the Corporation, beginning on December 17, 1988. The note is convertible at the option of the holder, beginning on December 17, 1988, in whole or in part, into common stock of the Corporation at $30 per share up to the original proceeds of the note, $10,336,760.

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PEPSICO, INC.
Notes to Financial Statements

Note 3—Notes Payable and Long-term Debt

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At December 26, 1981 and December 27, 1980, long-term debt (less current maturities) consisted of:

	1981	1980
	(in thousands)	
• • • •		
Zero coupon guaranteed notes due 1984		
(14.29% semiannual yield to maturity)	53,163	—
Other	103,917	61,563
Total long-term debt	$662,080	$621,563

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8) Intermediate-term Debt; Long-term Debt:

The following is a summary of the major categories of intermediate-term and long-term debt:

	December 31,	
$ in millions	1981	1980
Intermediate-term Debt:		
10.75% Notes due June 15, 1984	$150.0	$150.0
Zero Coupon Notes due December 1, 1986	106.4	—
Other domestic borrowings	27.0	9.3
International borrowings	134.9	122.5
Total	$418.3	$281.8

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All Notes and Debentures, except the Floating Rate Notes, are unsecured obligations of the Parent Company. They all were issued at par, except the Zero Coupon Notes which were sold at a discount to yield 13.25% to maturity and have a maturity value of $200,000,000.

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The Zero Coupon Notes may be redeemed at their maturity value at any time.

APPENDIX A

STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 47

DISCLOSURE OF LONG-TERM OBLIGATIONS

MARCH 1981

Summary

This Statement requires that an enterprise disclose its commitments under unconditional purchase obligations that are associated with suppliers' financing arrangements. Such obligations often are in the form of take-or-pay contracts and throughput contracts. This Statement also requires disclosure of future payments on long-term borrowings and redeemable stock. For long-term unconditional purchase obligations that are associated with suppliers' financing and are not recognized on purchasers' balance sheets, the disclosures include the nature of the obligation, the amount of the fixed and determinable obligation in the aggregate and for each of the next five years, a description of any portion of the obligation that is variable, and the purchases in each year for which an income statement is presented. For long-term unconditional purchase obligations that are associated with suppliers' financing and are recognized on purchasers' balance sheets, payments for each of the next five years shall be disclosed. For long-term borrowings and redeemable stock, the disclosures include maturities and sinking fund requirements (if any) for each of the next five years and redemption requirements for each of the next five years, respectively.

INTRODUCTION

1. The Board has received requests to consider the subjects of accounting for **project financing arrangements**[1] and accounting for **take-or-pay contracts, throughput contracts,** and other unconditional purchase obligations typically associated with project financing arrangements. Some have stated that certain of those arrangements and contracts result in acquisitions of ownership interests and obligations to make future cash payments that should be recognized as assets and liabilities on participants' balance sheets. Others consider such arrangements and contracts to result in commitments or contingent liabilities that should not be recognized on balance sheets.

2. The Board currently has on its agenda three topics that are part of the conceptual framework for financial accounting and reporting and that pertain to those requests:

a. Accounting recognition criteria for elements, which will address the types of transactions, events, and circumstances that should lead to recognition in financial statements of items that qualify as assets, liabilities, revenues, expenses, etc., under the definitions of elements of financial statements[2]

[1]Terms defined in the glossary (Appendix B) are in **boldface type** the first time they appear in this Statement.

[2]The question of when rights and obligations that arise under contracts should be recognized as assets and liabilities in financial statements is addressed in an FASB Research Report, *Recognition of Contractual Rights and Obligations,* prepared by Professor Yuji Ijiri of Carnegie-Mellon University as part of the accounting recognition criteria project. The Research Report discusses several possible recognition points, including initiation of the contract, delivery of the contracted goods or services, and payment for those goods or services.

b. Measurement of the elements of financial statements, which will consider how assets, liabilities, and other elements should be measured
c. Funds flows, liquidity, and financial flexibility, which will determine the kinds of information that should be reported to facilitate assessments of an enterprise's flow of funds, liquidity, and ability to obtain cash to adapt to unexpected difficulties or opportunities

The Board believes that the questions raised in paragraph 1 can be addressed more readily after further work is completed on some or all of those conceptual framework projects.

3. The arrangements and contracts discussed in paragraph 1 and in the remainder of this Statement are sometimes recognized on balance sheets. If they are not recognized on balance sheets, they often are disclosed in the notes to financial statements. If disclosed, the disclosure sometimes quantifies the enterprise's rights and obligations. As an interim measure, pending further work on those conceptual framework projects identified in paragraph 2, the Board has concluded that unconditional purchase obligations associated with financing arrangements should be disclosed and quantified. The Board also has concluded that enterprises should disclose future cash payments in a manner similar to existing disclosures of capital lease obligations for long-term borrowings and capital stock with mandatory redemption requirements. This Statement provides standards of disclosure.

4. Appendix A provides additional background information and the basis for the Board's conclusions. Appendix C illustrates applications of this Statement.

5. The Board has concluded that it can reach an informed decision on the basis of existing data without a public hearing and that the effective date and transition specified in paragraph 11 are advisable in the circumstances.

STANDARDS OF FINANCIAL ACCOUNTING AND REPORTING

Definition and Scope

6. An unconditional purchase obligation is an obligation to transfer funds in the future for fixed or minimum amounts or quantities of goods or services at fixed or minimum prices (for example, as in take-or-pay contracts or throughput contracts). An unconditional purchase obligation that has all of the following characteristics shall be disclosed in accordance with paragraph 7 (if not recorded on the purchaser's balance sheet) or in accordance with paragraph 10(a) (if recorded on the purchaser's balance sheet):

a. Is noncancelable, or cancelable only
   (1) Upon the occurrence of some remote contingency or
   (2) With the permission of the other party or
   (3) If a replacement agreement is signed between the same parties or
   (4) Upon payment of a penalty in an amount such that continuation of the agreement appears reasonably assured
b. Was negotiated as part of arranging financing for the facilities that will provide the contracted goods or services or for costs related to those goods or services (for example, carrying costs for contracted goods)
c. Has a remaining term in excess of one year

Future minimum lease payments under leases that have those characteristics need not be disclosed in accordance with this Statement if they are disclosed in accordance with FASB Statement No. 13, *Accounting for Leases.*

Unrecorded Obligations

7. A purchaser shall disclose unconditional purchase obligations that meet the criteria of paragraph 6 and that have not been recognized on its balance sheet. The disclosures shall include:

a. The nature and term of the obligation(s)
b. The amount of the fixed and determinable portion of the obligation(s) as of the date of the latest balance sheet presented in the aggregate and, if determinable, for each of the five succeeding fiscal years (paragraph 8)
c. The nature of any variable components of the obligation(s)
d. The amounts purchased under the obligation(s) (for example, the take-or-pay or throughput contract) for each period for which an income statement is presented

Disclosures of similar or related unconditional purchase obligations may be combined. These disclosures may be omitted only if the aggregate commitment for all such obligations not disclosed is immaterial.

8. Disclosure of the amount of imputed interest necessary to reduce the unconditional purchase obligation(s) to present value is encouraged but not required. The discount rate shall be the effective initial interest rate of the borrowings that financed the facility (or facilities) that will provide the contracted goods or services, if known by the purchaser. If not, the discount rate shall be the **purchaser's incremental borrowing rate** at the date the obligation is entered into.

Recorded Obligations and Redeemable Stock

9. Certain unconditional purchase obligations are presently recorded as liabilities on purchasers' balance sheets with the related assets also recognized. This Statement does not alter that accounting treatment or the treatment of future unconditional purchase obligations that are substantially the same as those obligations already recorded as liabilities with related assets, nor does it suggest that disclosure is an appropriate substitute for accounting recognition if the substance of an arrangement is the acquisition of an asset and incurrence of a liability.

10. The following information shall be disclosed for each of the five years following the date of the latest balance sheet presented:

a. The aggregate amount of payments for unconditional purchase obligations that meet the criteria of paragraph 6 and that have been recognized on the purchaser's balance sheet
b. The combined aggregate amount of maturities and sinking fund requirements for all long-term borrowings
c. The amount of redemption requirements for all issues of capital stock that are redeemable at fixed or determinable prices on fixed or determinable dates, separately by issue or combined

Effective Date and Transition

11. This Statement shall be effective for financial statements for fiscal years ending after June 15, 1981. Earlier application is encouraged. The disclosures required by paragraph 7(d) need not be included in financial statements for periods beginning before the effective date of this Statement that are being presented for comparative purposes with financial statements for periods after the effective date.

The provisions of this Statement need not be applied to immaterial items.

This Statement was adopted by the affirmative votes of six members of the Financial Accounting Standards Board. Mr. Morgan dissented.

Mr. Morgan dissents to issuance of this Statement because he believes it is not needed. In his opinion, conscientious preparers and auditors will disclose the existence of unconditional purchase obligations associated with financing arrangements if there is a reasonable possibility that a payment will be required without the purchaser receiving an asset of comparable value in return. Such disclosure seems to be required by FASB Statement No. 5, *Accounting for Contingencies;* if Statement 5 is ambiguous in that regard, an Interpretation would be sufficient. Mr. Morgan does not believe that there is a need for specific disclosure requirements for unconditional purchase obligations associated with financing arrangements, particularly if there is only a remote possibility that payment will be required without the purchaser receiving an asset of comparable value in return. Also, Mr. Morgan believes that the disclosure of obligations for each of the next five years may convey a notion of a contractual period longer than is realistic. He believes that such agreements are renegotiated frequently in practice.

Mr. Morgan also disagrees with mandating disclosure of next-five-year repayment requirements on long-term borrowings and redemption requirements on redeemable stock. He does not recall any requests to the Board to consider such disclosures.

Mr. Morgan's preference would be to delay action on this Statement until completion of the Board's conceptual framework project on accounting recognition criteria. That project could provide the Board a basis to conclude that unconditional purchase obligations should be recorded on the balance sheet, disclosed in the notes to financial statements, or both.

The members of the Financial Accounting Standards Board:

Donald J. Kirk, *Chairman*
Frank E. Block
John W. March
Robert A. Morgan
David Mosso
Robert T. Sprouse
Ralph E. Walters

Appendix A

BACKGROUND INFORMATION AND BASIS FOR CONCLUSIONS

12. As noted in the introduction, the FASB was asked to consider accounting for project financing arrangements. The particular requests related to whether the unconditional purchase obligations and indirect guarantees of indebtedness of others typical of project financing arrangements result in participants acquiring ownership interests and obligations to make future cash payments that should be recognized as assets and liabilities on their balance sheets. The Board concluded, as noted in paragraph 2, that those accounting questions could be answered better after further progress is made on the conceptual framework for financial accounting and reporting.

13. Paragraphs 40 and 41 of FASB Concepts Statement No. 1, *Objectives of Financial Reporting by Business Enterprises,* state one objective of financial reporting:

> Financial reporting should provide information about the economic resources of an enterprise, the claims to those resources (obligations of the enterprise to transfer resources to other entities and owners' equity), and the effects of transactions, events, and circumstances that change resources and claims to those resources. . . .
>
> Financial reporting should provide information about an enterprise's economic resources, obligations, and owners' equity. That information helps investors, creditors, and others identify the enterprise's financial strengths and weaknesses and assess its liquidity and solvency. Information about resources, obligations, and owners' equity also provides . . . direct indications . . . of the cash needed to satisfy many, if not most, obligations. . . . Many obligations are direct causes of cash payments by the enterprise, and reasonably reliable

> measures of . . . future net cash outflows are often possible for those . . . obligations.

Existing accounting for and disclosure of unconditional purchase obligations associated with financing arrangements are inconsistent among enterprises and often fail to satisfy that objective of financial reporting. In addition, as noted in paragraph 1, the unconditional purchase obligations discussed in this Statement have some of the characteristics of liabilities. Accordingly, as an interim measure pending a decision on whether the obligations should be recognized on purchasers' balance sheets, the Board decided that disclosures of unconditional purchase obligations associated with financing arrangements should be expanded and standardized to satisfy that objective of financial reporting.

14. On March 31, 1980, the FASB released an Exposure Draft, *Disclosure of Guarantees, Project Financing Arrangements, and Other Similar Obligations* (March Exposure Draft). The FASB received 102 letters of comment on the March Exposure Draft. Based on the comments received, the content of the March Exposure Draft was separated into two documents that were exposed concurrently for comment on November 14, 1980: a revised Exposure Draft, *Disclosure of Unconditional Obligations,* and a proposed Interpretation, *Disclosure of Indirect Guarantees of Indebtedness of Others.*

15. The Board received 67 letters of comment on the revised Exposure Draft. Certain of the comments received and the Board's consideration of them are discussed in paragraphs 16-22.

16. Some respondents stated that the revised Exposure Draft did not distinguish clearly between the unconditional obligations that would have been required to be disclosed and the unconditional obligations that would have been excluded. The distinction between long-term purchase commitments and take-or-pay contracts was of particular concern. Other respondents suggested that the Board should limit the disclosures to unconditional obligations with clear financing elements. Based on those comments, the Board reconsidered the scope of

this Statement. The Board's accounting recognition criteria project will consider criteria for balance sheet recognition of all contractual rights and obligations, whether or not unconditional and whether or not associated with financing arrangements. With respect to most contractual rights and obligations, the Board believes existing disclosures are adequate until the fundamental accounting concepts are resolved. Unconditional purchase obligations associated with financing arrangements, however, have many similarities to borrowings and to lease obligations, and the Board believes that existing disclosures often fail to adequately inform readers of the significance of those obligations. Accordingly, this Statement establishes standards of disclosure for unconditional purchase obligations associated with financing arrangements.

17. Some expressed concern that this Statement might impose on purchasers a burden of determining whether a supplier has used an unconditional purchase obligation to arrange financing without the purchaser's direct involvement or knowledge. The Board believes that, for most arrangements covered by this Statement, financing considerations are an integral part of negotiating the terms of the unconditional purchase obligation. There is no intent to require a purchaser to investigate whether a supplier used an unconditional purchase obligation to help secure financing, if the purchaser would otherwise be unaware of that fact.

18. Some respondents believe that FASB Statement No. 5, *Accounting for Contingencies,* already provides for adequate disclosure of unconditional purchase obligations associated with financing arrangements. They state that quantification of the obligation should be required only if a loss under the contract is reasonably possible. As stated in paragraph 13, however, the Board believes that existing disclosures of unconditional purchase obligations often fail to provide adequate information about an enterprise's economic resources and claims to those resources. Statement 5 contains requirements pertaining to accounting for and reporting loss contingencies, but does not otherwise address long-term unconditional obligations that are not required to be disclosed as loss contingencies but that nevertheless impose significant future financial commitments for which cash must be available.

19. Some respondents stated that the disclosures required by this Statement might be misleading to readers of financial statements because the obligations are disclosed but the associated benefits are not disclosed. Some respondents described the approach of the revised Exposure Draft as a liquidation perspective rather than a going-concern approach. The Board has not included explicit requirements to disclose associated benefits because the expected benefits may be difficult to quantify and may not be assured of realization. Paragraph 7(a) of this Statement requires a description of the nature of the obligation, and each of the first three illustrations in Appendix C describes the obligation and the associated benefit (access to processing facilities, availability of needed pipeline capacity, and an assured supply of ammonia, respectively). The lack of explicit requirements to disclose associated benefits does not preclude an enterprise from describing those benefits.

20. Several respondents noted that the requirements in Statement 13 to disclose future lease obligations apply to leases with initial or remaining terms in excess of one year and suggested conforming the requirements in this Statement. The Board has adopted that suggestion both to conform with Statement 13 and to reduce the costs of applying this Statement by eliminating the need to review short-term unconditional purchase obligations.

21. The revised Exposure Draft and this Statement require quantification of the fixed and determinable portion of unrecorded purchase obligations and description, but not quantification, of the variable portion of unrecorded obligations. Several respondents noted that the variable portion is similar to contingent rentals on leases. They suggested that the purchases made in each period for which an income statement is presented should be disclosed, similar to the disclosure of contingent rental expense, to help readers of financial statements estimate future payments under the variable portions. The Board adopted that suggestion.

22. Paragraphs 7 and 10(a) of this Statement require purchasers to disclose future payments under long-term

unconditional purchase obligations associated with financing arrangements, and Statement 13 requires lessees to disclose future payments under capital and operating leases. The Board believes it would be anomalous to require those disclosures but not to require disclosures of maturities and sinking fund requirements on long-term borrowings and of mandatory redemption requirements on capital stock that are similarly relevant in assessing future cash requirements. This Statement, therefore, includes standards of disclosure pertaining to long-term borrowings and capital stock with mandatory redemption features. Those standards are substantially the same as disclosures currently required by Regulation S-X of the Securities and Exchange Commission for publicly held enterprises.

Appendix B

GLOSSARY

23. For purposes of this Statement, certain terms are defined as follows:

a. *Project financing arrangement.* The financing of a major capital project in which the lender looks principally to the cash flows and earnings of the project as the source of funds for repayment and to the assets of the project as collateral for the loan. The general credit of the project entity is usually not a significant factor, either because the entity is a corporation without other assets or because the financing is without direct recourse to the owner(s) of the entity.
b. *Purchaser's incremental borrowing rate.* The rate that, at the inception of an unconditional purchase obligation, the purchaser would have incurred to borrow over a similar term the funds necessary to discharge the obligation.
c. *Take-or-pay contract.* An agreement between a purchaser and a seller that provides for the purchaser to pay specified amounts periodically in return for products or services. The purchaser must make specified minimum payments even if it does not take delivery of the contracted products or services.
d. *Throughput contract.* An agreement between a shipper (processor) and the owner of a transportation facility (such as an oil or natural gas pipeline or a ship) or a manufacturing facility that provides for the shipper (processor) to pay specified amounts periodically in return for the transportation (processing) of a product. The shipper (processor) is obligated to provide specified minimum quantities to be transported (processed) in each period and is required to make cash payments even if it does not provide the contracted quantities.

Appendix C

ILLUSTRATIONS OF THE APPLICATION OF THIS STATEMENT TO COMMON ARRANGEMENTS

Example 1

24. B Company has entered into a throughput agreement with a manufacturing plant providing that B will submit specified quantities of a chemical (representing a portion of plant capacity) for processing through the plant each period while the debt used to finance the plant remains outstanding. B's processing charges are intended to be sufficient to cover a proportional share of fixed and variable operating expenses and debt service of the plant. If, however, the processing charges do not cover such operating expenses and debt service, B must advance additional funds to cover a specified percentage of operating expenses and debt service. Such additional funds are considered advance payments for future throughput.

25. B's unconditional obligation to pay a specified percentage of the plant's fixed operating expenses and debt service is fixed and determinable, while the amount of variable operating expenses that B is obligated to pay will vary depending on plant operations and economic conditions.

26. B's disclosure might be as follows:

> To secure access to facilities to process chemical X, the company has signed a processing agreement with a chemical company allowing B Company to submit 100,000 tons for processing annually for 20 years. Under the terms of the agreement, B Company may be required to advance funds against future processing charges if the chemical company is unable to meet its financial obligations. The aggregate amount of required payments at December 31, 19X1 is as follows (in thousands):

19X2	$ 10,000
19X3	10,000
19X4	9,000
19X5	8,000
19X6	8,000
Later years	100,000
Total	145,000
Less: Amount representing interest	(45,000)
Total at present value	$100,000

In addition, the company is required to pay a proportional share of the variable operating expenses of the plant. The company's total processing charges under the agreement in each of the past 3 years have been $12 million.

Example 2

27. C Company has entered into a throughput agreement with a natural gas pipeline providing that C will provide specified quantities of natural gas (representing a portion of capacity) for transportation through the pipeline each period while the debt used to finance the pipeline remains outstanding. The tariff approved by the Federal Energy Regulatory Commission contains two portions, a demand charge and a commodity charge. The demand charge is computed to cover debt service, depreciation, and certain expected expenses. The commodity charge is intended to cover other expenses and provide a return on the pipeline company's investment. C Company must pay the demand charge based on the contracted quantity regardless of actual quantities shipped, while the commodity charge is applied to actual quantities shipped. Accordingly, the demand charge multiplied by the contracted quantity represents a fixed and determinable payment.

28. C's disclosure might be as follows:

C Company has signed an agreement providing for the availability of needed pipeline transportation capacity through 1990. Under that agreement, the company must make specified minimum payments monthly. The aggregate amount of such required payments at December 31, 19X1 is as follows (in thousands):

19X2	$ 5,000
19X3	5,000
19X4	5,000
19X5	4,000
19X6	4,000
Later years	26,000
Total	49,000
Less: Amount representing interest	(9,000)
Total at present value	$40,000

In addition, the company is required to pay additional amounts depending on actual quantities shipped under the agreement. The company's total payments under the agreement were (in thousands) $6,000 in 19W9 and $5,500 both in 19X0 and in 19X1.

Example 3

29. A subsidiary of F Company has entered into a take-or-pay contract with an ammonia plant. F's subsidiary is obligated to purchase 50 percent of the planned capacity production of the plant each period while the debt used to finance the plant remains outstanding. The monthly payment equals the sum of 50 percent of raw material costs, operating expenses, depreciation, interest on the debt used to finance the plant, and a return on the owner's equity investment.

30. F's disclosure might be as follows:

To assure a long-term supply, one of the company's subsidiaries has contracted to purchase half the output of an ammonia plant through the year 2005 and to make minimum annual payments as follows, whether or not it is able to take delivery (in thousands):

19X2 through 19X6 ($6,000 per annum)	$ 30,000
Later years	120,000
Total	150,000
Less: Amount representing interest	(65,000)
Total at present value	$ 85,000

In addition, the subsidiary must reimburse the owner of the plant for a proportional share of raw material costs and operating expenses of the plant. The subsidiary's total purchases under the agreement were (in thousands) $7,000, $7,100, and $7,200 in 19W9, 19X0, and 19X1, respectively.

Example 4

31. D Company has outstanding two long-term borrowings and one issue of preferred stock with mandatory redemption requirements. The first borrowing is a $100 million sinking fund debenture with annual sinking fund payments of $10 million in 19X2, 19X3, and 19X4, $15 million in 19X5 and 19X6, and $20 million in 19X7 and 19X8. The second borrowing is a $50 million note due in 19X5. The $30 million issue of preferred stock requires a 5 percent annual cumulative sinking fund payment of $1.5 million until retired.

32. D's disclosures might be as follows:

Maturities and sinking fund requirements on long-term debt and sinking fund requirements on preferred stock subject to mandatory redemption are as follows (in thousands):

	Long-term debt	Preferred stock
19X2	$10,000	$1,500
19X3	10,000	1,500
19X4	10,000	1,500
19X5	65,000	1,500
19X6	15,000	1,500

INDEX